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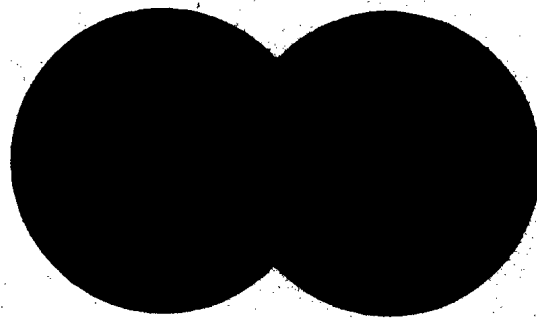
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# WEEKLY SUMMARY



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**H I G H L I G H T S**

With the announcement of the outcome of the Moscow talks still pending, the USSR attempted this week to regain the diplomatic initiative in the Kasenkina case by closing the Soviet consulates in New York and San Francisco and by revoking US consulate permits for Leningrad and Vladivostok. Except for the propaganda returns of this move, however, the USSR has neither gained nor lost much, but, by the closing of the Vladivostok consulate, the US has been limited to Moscow as the only listening post in the USSR (see page 6). Within the Soviet Union, a major shakeup in top level economic administration appears to have resulted from Kremlin dissatisfaction with Soviet production (see page 7).

In western Europe, the USSR made a belated but important move in its campaign to undermine the authority of the Austrian Government by denouncing Austria's six-week old ECA agreement (see page 2). In the Near East, several recently reported long meetings between a Soviet representative and Syrian leaders suggest the possibility of a revision of Soviet policy vis-a-vis the Arab states (see page 10).

In France, the Marie Government has won an initial parliamentary success by gaining Assembly approval for the Reynaud economic program, but the success of the program now depends upon the Government's ability to satisfy labor's demands for immediate wage increases (see page 3).

The UN Good Offices Committee in Indonesia will probably be faced with a severe crisis soon as a result of the expressed intentions of the Dutch to establish an interim administration in Indonesia without the participation of the Republic (see page 12).

In Mexico, widespread dissatisfaction with the Aleman administration suggests that a national emergency may be imminent (see page 13).

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**SECRET****WESTERN EUROPE**

Major UN controversial issues of atomic energy, disarmament, and the UN armed forces will probably be aired at the September meeting of the General Assembly in Paris. In dealing with these subjects, progress of the UN groups has been persistently blocked by Soviet obstructionism. Reports to the Security Council from the groups charged with these questions have also been subject to Soviet veto. Because of the resulting deadlocks, the western powers will probably bring into the open the disputed issues, particularly that of atomic energy, in an attempt to influence the USSR by bringing to bear the moral weight of world opinion. In turn, the USSR can be expected to release a major propaganda attack against the western powers, contending that the actions of these nations alone have prevented progress on the disputed issues.

**AUSTRIA**

Soviet denunciation of Austria's ECA agreement represents a belated, but important, move in what may become a campaign to undermine the authority of the Austrian Government. Almost six weeks after the conclusion of the agreement, the USSR condemned the accord as a violation of the existing four-power convention on Austria. By so doing, the USSR has laid a legalistic basis for unilateral "defensive" measures in the Soviet occupation zone.

As another phase of its still subtle attack, the USSR seems to be gradually weakening the authority of the Austrian Government in the eastern zone through undermining Government control over its police officials. The timing of a Soviet move to assume complete control in eastern Austria and to undermine the position of the western powers in Vienna will be determined by Soviet strategy for all of western Europe, which, in turn, will be affected by the outcome of the present negotiations

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**SECRET****AUSTRIA**

regarding Berlin. If the Berlin blockade does not obtain the desired concessions from the western powers, then the USSR may step up its time table for bringing similar and even greater pressure to bear on the western nations in Austria.

**FRANCE**

The Marie Government scored an initial parliamentary success in obtaining French Assembly approval of the Reynaud program for long-term economic improvement in France. The success of the program, however, now hinges primarily upon whether the Government can satisfy the demands of labor before the 1 September deadline announced by the non-Communist labor front. In order to forestall widespread labor unrest and give the Government the opportunity to apply the new stabilization program, serious consideration is being given to granting immediately either a modest wage increase or, preferably, a high cost-of-living allowance. The success of Reynaud's program is further dependent upon substantial sacrifices by the French people and upon their cooperation. Reynaud, in attempting to mobilize all classes and organized groups in support of this program, may have to make concessions to each group. Although the initial response to Reynaud's strong proposals was satisfactory, as the program is implemented the competition for advantage among the political and economic groups may prevent the self-sacrifice necessary to the success of the new program.

**GERMANY**

An additional burden on US-UK Zone Germany, and consequently on US and British finances, will probably result from the contemplated economic merger of the French Zone. The additional burden would arise, primarily, from the necessity

**SECRET****GERMANY**

of sending substantial quantities of food into the French Zone in order to maintain a common ration level. US-UK Zone authorities would also inherit the disturbing problem of compelling French authorities to relax unilateral controls over their zone. The French policy of living off the land and of enforcing harsh occupation measures has reduced the Germans in the French Zone to passive non-cooperation which may account, in part, for the low level of food production in an area predominantly rural.

**UNITED KINGDOM**

The UK Government is expected by procrastination or some political device to block the French proposal for a constitutional assembly looking toward a western European federation. Despite the considerable public and parliamentary support for the proposal, government leaders feel that political federation now is both premature and impractical. In addition, the government believes that a federal parliament, which presumably would include and reflect national party strengths, might give a Communist minority undue influence over British policy and would certainly operate as a tool of Soviet foreign policy. Present commonwealth relationships, coupled with the political instability of the western European governments, further compel the UK to avoid political associations at this time which would both restrict its independence of action and weaken the special position of a British bloc in the eyes of the US.

**ICELAND**

Soviet espionage in Iceland is increasingly aided by Iceland's Communist Party and by the ineffective Icelandic security force. The recent arrest of four members of a Czechoslovak scientific expedition, who were apprehended while taking photographs in the Vestmann Islands off Iceland's southwest coast,

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**ICELAND**

**has aroused protests in the non-Communist press. This incident followed closely the arrival of a Soviet fishing fleet in Icelandic waters and the temporary detention by the USSR of 14 Icelandic fishing boats newly-purchased from Finland. Evidence of increased Satellite interest in Iceland and of the active cooperation of local Communists in such projects as the photographing of coastal areas and the measuring of harbor depths is a source of considerable concern to Iceland's anti-Communist coalition government.**

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## E A S T E R N   E U R O P E

Rather than a sharp break in US-Soviet relations, the closing of two Soviet consulates in the US and the revocation of consulate permits for Leningrad and Vladivostok should be considered as symptoms of the general deterioration in the relations between the two nations. The closing of the consulates will produce only minor modifications in the over-all political situation in the near future, and the economic effects of closing the Soviet consulates will be slight. In New York, virtually all Soviet purchasing was channeled through Amtorg, official purchasing agent for the USSR. In San Francisco, the present functions of the consulate can be shifted to the eastern offices of Amtorg inasmuch as most of the shipments to the USSR originate in ports along the eastern seaboard. The recognized intelligence functions of the Soviet consulate staffs can be shifted to one or several organizations directly connected with the USSR. Intelligence agents can be planted on the UN delegation staff of the USSR, the Amtorg staff, or among the diplomatic staffs of the Satellite states which maintain diplomatic relations with the US. The US consulate in Vladivostok has been of little commercial value, although it did provide the US with a listening post in Siberia and a window into the Soviet activities in the Far East. If the USSR decides to impose further restrictions, it may bring pressure to bear on several Satellites to force the US to close its consulates.

The UK intends to withhold strategic-supply shipments to those Satellite countries which are nationalizing British properties. Effective 1 September, the British Shell Oil Company has cancelled all of its outstanding contracts to supply aviation petroleum products to Czechoslovakia, which will aggravate the already serious shortage of aviation gasoline and oils in that country. In conjunction with the US and France, the British are preparing a list of products that will not be shipped to Rumania because of its nationalization program. In Yugoslavia, the British are holding up the conclusion of a trade agreement pending settlement of compensation to the British people from nationalization of their properties.

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**SECRET****SOVIET UNION**

Kremlin dissatisfaction with Soviet production is causing major shakeups in the top level economic administration. Reorganization measures this month have consolidated eight key economic ministries into four. These drastic reorganizations, which mark the reversal of a nine-year decentralization trend, are connected with the current economy drive being conducted throughout the USSR. By centralizing economic control and placing it in the hands of trusted party leaders, the Kremlin is hoping to improve lagging production and to combat admitted inefficiencies and dishonest practices. Such a sweeping economic reorganization will cause a temporary letdown in production. The prospects for any marked long-term improvement are not promising.

Soviet propaganda during the past week concentrated upon current points of friction in US-Soviet relations. In every instance, Soviet propagandists attempted to place the stigma for disturbing world peace upon the US. While Moscow remained silent on the Berlin discussions, Communist and Satellite propagandists widely published rumors and speculations regarding each meeting and quickly developed a pattern and accuracy indicating a probable leak from a Soviet source. In "leaking" information regarding the Moscow talks to Communist and Satellite propagandists while maintaining a discreet silence at home, the Kremlin may be attempting (1) to indicate the party line in advance to present its case more effectively; (2) to bolster Communist Party morale by pointing the propaganda toward a Soviet victory. Stung by the unexpected turn in the Kasenkina case, Soviet propagandists continued to charge that the US was coercing the school teacher into making false statements. PRAVDA rebutted the US statement on the Dreher case and charged the Department of State with encouraging "unprecedented provocations" against the USSR in order to "cover up the failure of its foreign policy."

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## YUGOSLAVIA

Anti-Tito Yugoslav Communists in Rumania and Hungary may be organizing for the purpose of liquidating the Yugoslav dictator. Tito's strong control over the army and the security police makes it unlikely that these anti-Tito groups will attempt to start a revolt in the near future, although the possibility of increasingly strong pressure against Tito cannot be entirely discounted. In event of a civil war, a third force, composed of those resistance groups within the country that oppose any type of Communist dictatorship, would probably attempt to wrest control of the government from both Communist factions.

## CZECHOSLOVAKIA

Czechoslovakia has continued to furnish fuel for the air transport of munitions to Palestine despite a serious shortage of aviation gasoline for general Czechoslovak use. The arms shipments to Palestine have been of sufficient economic and political importance to Czechoslovakia to warrant reduction of fuel stocks to the point of endangering high octane military reserves and the foreign operation of the Czechoslovak airlines. Although the shipment of munitions to Palestine may be an "independent" action on the part of Czechoslovakia to obtain dollar exchange, it is unlikely that such shipments could be accomplished without the tacit consent of the USSR.

## GREECE

The guerrilla-held territory in the Grammos area has now been reduced to a pocket along the Albanian border so small as to be of little military significance. The forces remaining in this pocket continue, however, to resist Greek Army attacks in an effort to keep alive the idea of a "free" Greece. The

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**GREECE**

majority of the guerrillas have presumably escaped into Albania, and it is apparent that, contrary to previous rumors, Albania (along with Bulgaria and Yugoslavia) is still giving at least passive aid to the rebels. Although the northern neighbors are not expected to supply aid sufficient to turn the tide of battle or to make good the losses of the guerrillas, they will--in the absence of effective UN action--continue to furnish some measure of military assistance to the guerrillas until the Greek Communist Party launches its campaign of political subversion in Greece. Meanwhile, the Greek Army, acting with unaccustomed vigor, is already following up the Grammos successes by moving against those areas threatened with guerrilla re-infiltration from the neighboring countries.

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**SECRET****NEAR EAST - AFRICA****PALESTINE**

The UN truce appears to have been strengthened by the Security Council's recent warning to both Jews and Arabs to cease truce violations whether committed by regular or irregular forces. Although there is no evidence that the Jews have abandoned their claim to Jerusalem, the SC warning has apparently checked their military aggressiveness, at least temporarily. The Arabs, however, remain suspicious of Jewish intentions as well as of the role of the western powers in the Middle East, and there are indications that some of the Arab states may be considering a rapprochement with the USSR. David Solod, the Soviet Minister to Syria and Lebanon (reputedly the Soviet Union's top man in the Arab states), is said to have engaged in several lengthy meetings with Syrian political leaders. Solod's recent return to Moscow has given rise to speculation that he may recommend a complete "overhauling" of Soviet policy toward the Middle East. The Syrian Government is allegedly consulting the Kremlin on what reward the Arab states may expect if they place themselves within the Soviet orbit, and Communists in Iraq and Lebanon are reported to be advocating closer Arab-Soviet ties.

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## F A R E A S T

## CHINA

"Watchful waiting" prevailed throughout China on both the military and political fronts during the past week. Communist pressure on encircled Taiyuan and Tsinan appeared somewhat relaxed, but sporadic Communist raids on isolated Changchun continued unabated. On the political front, the momentum of the northern separatist movement slowed appreciably with the apparent realization of the northern leaders that the time is not yet ripe for an open break with Chiang Kai-shek. This realization by the northern leaders evidently is based upon the following factors: (1) all their overtures to foreign powers for the purchase of arms and equipment have proved fruitless; (2) these leaders are confident that a Republican victory this fall will result in greatly expanded aid to China; and (3) they also feel that so long as Chiang Kai-shek continues to be the recognized head of the Chinese Government, all US aid will be funneled through Nanking.

In issuing the new gold-backed Chinese currency, Chiang Kai-shek has committed all the economic reserves which were available to him for his last-ditch fight to control inflation and effect a return to orderly economic processes. The success of the new currency could prolong considerably the life of the National Government; its failure would hasten materially the downfall of Chiang Kai-shek. Although it is still too early to determine how effective the currency reform may be, preliminary reports indicate that it may achieve a limited success or that it will at least gain time for the government until the "more understanding" US administration expected by Chiang Kai-shek takes office. Any substantial success for the monetary reform will depend upon the ability of the government to hold the budgetary deficit to manageable proportions, favorable fall harvests, the effectiveness of accompanying government reforms, and the amount of public confidence in the new currency.

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## **BURMA**

The Burmese Government has approached the US and UK for large quantities of military supplies, and new army and police battalions are being formed to cope with Burma's latest insurrection. By October the UK will probably be in a position to give substantial and perhaps decisive aid to the present government, if it is able to retain even a tenuous authority. With adequately organized military forces, the government may be able to seize the initiative from the rebels, who now control large areas of the hinterland and the main lines of communication, and thereby to start a trend toward the ultimate pacification of the country. The interruption of its rice and tea production, however, threatens the Burmese economy with difficulties that may prove more dangerous than the insurrection. The government's ability to prevent inflation, to conduct an expensive military campaign, and to import sufficient consumer goods for an extended period is highly questionable and will depend upon substantial military and financial aid from the outside.

## **INDONESIA**

A serious crisis is expected to confront the UN Good Offices Committee in Indonesia as a result of apparent Dutch intentions to carry out a plan for an interim administration in Indonesia without participation by the Republic. Under the January 1948 Renville Agreement, the Republic is to have a place in an interim government and later in the United States of Indonesia. It can be expected that the Republic will lodge a vigorous protest with the UN Security Council on the grounds that the Dutch action is a breach of the Renville Agreement. There is increasing evidence, however, of stronger left-wing influence in the Republic which is demanding a complete break-off of negotiations or a continuation of negotiations only on the basis of full Republican sovereignty.

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**SECRET****W E S T E R N   H E M I S P H E R E****MEXICO**

Widespread political unrest in Mexico, resulting principally from dissatisfaction with the Aleman administration, suggests that a national emergency may be imminent. The recent devaluation of the peso is the basic cause of current unrest. There are rumors that groups opposed to President Aleman will attempt to force his resignation or overthrow the regime by armed revolution. Leading movers against Aleman are ex-Presidents Cardenas and Camacho and political leader Toledano who may attempt to consolidate the dissidents among various groups, including members of Partido Popular, the Communists, some generals of the army, and minor political personages. Although Mexico's unstable economic condition, which reflects the world situation, probably could not have been forestalled, an immediate remedial program to eliminate some of the most glaring evidences of the administration's graft and to carry on efficient industrial production appears to be the only expedient available to Aleman if his regime is to survive. If remedial action is not indicated soon, Aleman's position is so precarious that the opposition may attempt the sudden overthrow of his regime.

**ARGENTINA**

Current authoritarian controls of the Peron regime in Argentina are apparently designed primarily to meet a future emergency and to have a psychological effect during the country's present economic crisis. Dissatisfaction with the present administration has been evident in labor unions and in business circles. Army resentment against civilian policy makers, whom they blame for Argentina's economic plight, poses the greatest immediate danger to the regime. Although Peron is undoubtedly reluctant to sacrifice powerful labor support and Argentine prestige abroad by the adoption of dictatorial methods, a strong majority supports



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**ARGENTINA**

him in his efforts to obtain legislative sanction of authoritarian controls. Meanwhile, the renewed hope of receiving dollars from ECA purchases, which has sprung from recent ECA approval of an Austrian purchase of Argentine quebracho, has led Peron to temporize.

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**SECRET****A P P E N D I X****THE PRESENT SITUATION IN JAPAN**

Japan's strategic geographic location and its large reservoir of trained manpower make the eventual orientation of Japan a matter of vital concern to both the US and the USSR. While suspicious neighbors anxiously watch for signs of a re-birth of Japanese power, Japan is undergoing drastic reforms in its political, economic, and social structure.

Despite over-population, inexperienced leadership, and the imposition of reforms by occupation forces -- all of which militate against a stable government -- Japan's short-lived coalition governments have operated fairly efficiently. Furthermore, Japan has been able to avoid serious internal conflicts by virtue of a homogeneous population, an experienced bureaucracy, and a popular hereditary monarch. During the occupation thus far, organized labor advanced its membership to almost six million and has become the principal pressure group in politics. With major union strength divided between one federation closely related to the Socialist Party and another composed of extreme leftists, the Labor camp can swing either to democracy or, under pressure of prolonged economic distress, to the Communists.

The Communist Party, well-disciplined and already strongly entrenched, presents the only organized threat to Japanese internal stability. However, a reliable estimate of the Japanese postwar political structure or of Japanese assimilation of democracy is impossible until SCAP control has been lifted and the occupation forces withdrawn. The future political stability and orientation of Japan are dependent largely on a viable economy, attainment of which could establish Japan as a free and independent nation capable of exerting a stabilizing influence in Asia. Before Japan can assume such a role, however, solutions must be found to the problems posed by

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reparations, by the possible curtailment of markets and sources of raw materials in the Far East, and by the threat to Japanese trade with Northeast Asia consequent to the steady strengthening of the Soviet position in that area. Trade with Southeast Asia and the Philippine Islands could compensate somewhat for the short-term loss of Northeast Asia trade, but long-term consideration of the resultant unbalance in the Japanese natural trade pattern reveals that economic stability could be maintained only if the US were to underwrite substantial trade deficits on a continuing basis. Granted US rehabilitation aid, the present political stability and pro-US orientation of Japan will probably continue. Failing this, Japan might be forced to align itself with the USSR in an effort to achieve economic normality. Only as an ally of the USSR or as part of a large anti-US coalition could Japan once again threaten US security.

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